

Message Text

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ORIGIN NODS-00

INFO OCT-01 ISO-00 /001 R

66106

DRAFTED BY:S/S:FORTIZ

APPROVED BY:S/S:MR. ORTIZ

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TO AMCONSUL RIO DE JANEIRO IMMEDIATE

AMCONSUL SAO PAULO IMMEDIATE

C O N F I D E N T I A L STATE 179467

NODIS

FOL SENT ACTION TO SECSTATE JUL 29, 1975 FROM BRASILIA

QUOTE C O N F I D E N T I A L BRASILIA 6313

NODIS

DEPT PASS AMCONSULS RIO DE JANEIRO AND SAO PAULO

PASS AMBASSADOR CRIMMINS

DEPT PASS TREASURY (SUCHMAN) AND AGRICULTURE (FAS)

E. O. 11652: XGDS-1

TAGS: EAGR, EFIN, BR

SUBJ: BRAZILIAN SOYBEANS: EXPORT INCENTIVES AND
SUBSIDIES

1. SUMMARY. THROUGH THE EFFORTS OF CONGEN SAO PAULO
AND WITH THE ASSISTANCE OF AGRICULTURAL ATTACHE WE
HAVE GATHERED ADDITIONAL INFORMATION ON SUBJECT OF
BRAZILIAN SOYBEAN MARKET AND EXPORT INCENTIVES. THE
CONCLUSIONS OF THIS ADDITIONAL RESEARCH, IN THE
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EMBASSY'S VIEW, CAN BE SUMMARIZED AS FOLLOWS:

(A) THERE ARE NO RPT NO INCENTIVES GIVEN THE
EXPORT OF SOYBEANS (NOR TO DOMESTIC PRODUCERS).
IN FACT, SOYBEAN EXPORTS PAY AN ICM (TURNOVER TAX)
OF 13 PERCENT; (B) EXPORTERS OF SOYBEAN MEAL AND

OIL DO NOT RPT NOT RECEIVE THE INCENTIVES ENJOYED BY EXPORTERS OF OTHER PROCESSED PRODUCTS. SOYBEAN MEAL AND OIL ARE TREATED DIFFERENTLY. SOYBEAN MEAL AND OIL PAY A SMALL ICM. SOYBEAN OIL, IN ADDITION, BENEFITS FROM AN ICM AND IPI CREDIT WHICH WORKS OUT TO BE ONE HALF OF ONE PERCENT OF THE VALUE OF THE BEANS PROCESSED BY A CRUSHER. THIS IS A ONE-YEAR SHOT DICTATED BY POLITICAL NECESSITIES. ITS ECONOMIC BENEFIT TO THE CRUSHERS IS DE MINIMIS, AND WHATEVER VALUE IT MIGHT HAVE IN STIMULATING EXPORTS IS NEGATED BY A QUANTITATIVE CEILING ON EXPORTS. SOYBEAN OIL IS IN SHORT SUPPLY IN BRAZIL, AND WITH DOMESTIC DEMAND INCREASING RAPIDLY THIS SITUATION IS UNLIKELY TO CHANGE IN THE NEAR FUTURE; (C) FACT THAT SOYBEANS EXPORTS PAY A 13 PERCENT ICM TAX, TENDS TO DEPRESS DOMESTIC PRICES VIS-A-VIS WORLD MARKET PRICES THUS ACTING AS A DISINCENTIVE TO SOYBEAN PRODUCTION; AND (D) THE MINIMUM SUPPORT PRICE IS NOT OPERATIVE SINCE IT IS WELL BELOW INTERNATIONAL AND DOMESTIC MARKET PRICES AND FARMERS ARE HOLDING BACK SALES IN THE EXPECTATIONS OF CONTINUED HIGHER PRICES.

2. THIS INFORMATION WAS OBTAINED FROM TRADE AND INDUSTRY SOURCES WHICH ARE RELIABLE AND EXPERT IN THE FIELD. ON THE BASIS OF THIS INFORMATION, IN THE EMBASSY'S VIEW, BRAZILIAN EXPORTS OF SOYBEAN AND SOYBEAN PRODUCTS DO NOT RPT NOT RECEIVE AN ECONOMICALLY SIGNIFICANT UNFAIR ADVANTAGE AT THIS TIME. END SUMMARY.

3. FOLLOWING UP ON REFTEL, THE EMBASSY, THROUGH THE EFFORTS OF CONGEN SAO PAULO AND THE AGRICULTURAL ATTACHE, HAS DEVELOPED ADDITIONAL INFORMATION ON THE OPERATION OF THE SOYBEANS AND SOYBEAN PRODUCTS MARKET IN BRAZIL. THIS INFORMATION, WHICH WAS DEVELOPED FROM CONVERSATIONS WITH RELIABLE AND KNOWLEDGEABLE SOURCES IN SAO PAULO, PROVIDES A CONFIDENTIAL

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MORE COMPREHENSIVE, MORE DEFINITIVE AND MORE ACCURATE PICTURE OF THE OPERATION OF THIS MARKET. EMBASSY AGAIN WISHES TO EMPHASIZE THE GREAT SENSITIVITY IN BRAZIL WITH RESPECT TO SOYBEAN EXPORTS, INCREASED BY THE RECENT SETBACK TO BRAZILIAN AGRICULTURE, AND THE SERIOUS REPERCUSSIONS ON US-BRAZILIAN RELATIONS THAT WOULD RESULT FROM UNAUTHORIZED DISCLOSURES THAT USG IS EXAMINING BRAZIL'S EXPORT INCENTIVE SYSTEM IN THIS SECTOR.

4. CORRECTING PARA 1A REFTEL, THE SOYBEAN MARKET IS NOT RPT NOT DIVIDED INTO TWO PARTS, ONE FOR EXPORT AND ONE FOR DOMESTIC USE. ALTHOUGH THE DIFFERENCE BETWEEN THE DOMESTIC AND FOB EXPORT

PRICE IS SUBSTANTIAL, THE RELATIONSHIP BETWEEN THESE PRICES IS ALMOST EXACT. A NUMBER OF COST FACTORS, OF WHICH FREIGHT AND A TURNOVER (ICM) TAX OF 13 PERCENT ON FOB VALUE OF EXPORTS LOOM PARTICULARLY LARGE, FULLY EXPLAIN THE DIFFERENCE BETWEEN THE DOMESTIC AND EXPORT PRICES.

5. THERE ARE NO RPT NO TAX INCENTIVES TO THE SOYBEAN GROWER OR EXPORTER. IN FACT, SOYBEANS CARRY AN ICM TAX ON EXPORTS AVERAGING 13 PERCENT FOR ALL SOUTH AND SOUTH-CENTRAL PORTS (FROM WHICH MOST OF THE SOYBEANS ARE EXPORTED).

6. SOYBEAN MEAL AND OIL ALSO DO NOT RPT NOT RECEIVE THE SAME INCENTIVES ENJOYED BY EXPORTERS OF OTHER MANUFACTURED PRODUCTS. THEY ARE CONSIDERED SPECIAL CASES IN THE NATURE OF SEMI-PROCESSED GOODS.

A) SOYBEAN MEAL (CAKE, PELLETS) PAY AN ICM TAX OF 1.5 PERCENT OF FOB VALUE ON 1975 CROP EXPORTS. (ICM TAX PAYMENTS ON MEAL FROM THE 1974 CROP WAS 2.5 PERCENT).

B) SOYBEAN OIL PAYS NO ICM TAX ON FOB VALUE OF EXPORTS, AND THERE IS A COMBINED ICM AND IPI CREDIT IN CRUZEIROS OF 12 PERCENT OF THE FOB VALUE, A RATE WHICH IS EXPECTED TO DROP TO 10 PERCENT ON AUGUST 1 THROUGH DECEMBER 31, 1975. THIS IS A ONE YEAR EFFORT WHICH IS INTENDED TO STIMULATE THE SOYBEAN PROCESSORS

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TO PAY MORE TO THE FARMERS FOR THEIR BEANS, IN VIEW OF THE DISAPPOINTMENT OF MANY GROWERS OVER LAST YEAR'S PRICES, WHICH HAD POLITICAL REPERCUSSIONS IN THE NOVEMBER 1974 ELECTIONS. THUS OIL EXPORT INCENTIVE SCHEME WAS LARGELY A POLITICALLY MOTIVATED ACTION FOR 1975, AND ONLY PARTLY ACHIEVED ITS OBJECTIVES OF BENEFITTING THE GROWERS.

(C) THE ECONOMIC BENEFIT FROM THE CREDIT INCENTIVES IS DE MINIMIS, AND ITS ECONOMIC EFFECTS ARE ESSENTIALLY WASHED OUT BY A FIXED EXPORT QUOTA. THE CREDIT WILL BE ABOLISHED AS OF DECEMBER 31. IN VIEW OF THE RAPIDLY INCREASING DOMESTIC DEMAND FOR SOYA OIL AND THE GOB'S INTEREST IN KEEPING CONSUMER PRICES LOW, WE CONSIDER IT DOUBTFUL THE GOB WOULD REINSTITUTE SUCH AN INCENTIVE SYSTEM FOR OIL EXPORTS NEXT YEAR. IN ANY CASE, THESE OIL EXPORTS ARE EXCEEDINGLY SMALL, EVEN NEGLIGIBLE, BY INTERNATIONAL STANDARDS. CRUSHERS ARE ALLOWED TO EXPORT ONLY 10 PERCENT OF THE OIL WHICH THEY PRODUCE. (THERE IS AN OVERALL EXPORT CEILING OF 10 PERCENT OF THE SOYBEAN OIL PRODUCED BY CRUSHERS DURING 1975). ON THIS BASIS, THE SPECIAL TAX CREDIT ON OIL EXPORTS

EFFECTIVE AUGUST 1, 1975, WORKS OUT TO ONLY ONE HALF OF 1 PERCENT ON THE VALUE OF BEANS SINCE OIL REPRESENTS ONLY 50 PERCENT OF THE VALUE OF THE BEANS AND THE CREDIT IS ON 10 PERCENT OF THE VALUE OF 10 PERCENT OF THE OIL PRODUCED. AN ADDITIONAL FACTOR REDUCING THE COMPETITIVENESS OF BRAZILIAN SOYBEAN PRODUCTS IS THE HIGH COST OF MOVING THE OIL FROM THE MILL TO ON-BOARD SHIP, INCLUDING HIGH TRANSPORTATION CHARGES AND VERY HIGH PORT CHARGES OF ALL TYPES.

7. PRODUCTION COSTS: THE GENERAL CONSENSUS IS THAT FARMERS IN RIO GRANDE DO SUL CAN PRODUCE SOYBEANS AT AN AVERAGE OF ABOUT CR\$56 PER 60 KILO BAG OR LESS, BELOW THE GOVERNMENT'S MINIMUM SUPPORT PRICE (SEE BELOW). THERE IS A BASIC PROBLEM IN ESTABLISHING AN EXACT PRODUCTION COST FIGURE BECAUSE OF DOUBLE CROPPING OF WHEAT AND SOYBEANS AND, CONFIDENTIAL

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THEREFORE, THE QUESTION OF HOW TO ALLOCATE JOINT COSTS SUCH AS DEPRECIATION OF MACHINERY USED FOR THE CROPS.

8. SOYBEAN PRODUCTS: BRAZIL IS AS YET VERY INEFFICIENT WITH REGARD TO OIL MILLS AND PRODUCTS. THE CAPACITY IS INSUFFICIENT TO MEET THE RAPIDLY INCREASING DOMESTIC DEMAND. THIS INEFFICIENCY RESULTS FROM THE LARGE NUMBER OF VERY LOW VOLUME OIL MILLS. WHILE AN OIL MILL WITH A DAILY PRODUCTION OF 1,200 TONS OF OIL AND UP IS STANDARD IN THE UNITED STATES, THERE ARE ONLY TWO MILLS OF THAT SIZE IN BRAZIL TODAY: SANBRA AND CARGILL'S MILLS IN PONTA GROSSA, PARANA. THERE ARE MANY 50 TO 100 TON A DAY MILLS WHICH ARE ESSENTIALLY ONE MAN OPERATIONS. WHILE EFFORTS ARE UNDER WAY TO INCREASE CAPACITY

THIS SITUATION WILL CONTINUE FOR THE FORESEEABLE FUTURE. CRUSHING MARGIN AT AN AVERAGE SIZE MILL VARIES FROM CR\$230 TO CR\$280 PER MT.

9. BRAZILIAN PRICE EXPECTATIONS: THE FARMERS' EXPECTATIONS ARE VERY OPTIMISTIC. SOURCE'S COMPANY HAD MADE SOME RECENT PURCHASES AT CR\$80 TO CR\$82 A 60 KILO SACK TO KEEP ITS OIL MILLS RUNNING. THE LOCAL BRAZILIAN PRICE HAD GONE UP IN RESPONSE TO THE CHICAGO MARKET AND THE BRAZILIAN FARMERS BASIC EXPECTATION IS THAT SINCE PRICES HAD STARTED UP IN LATE JULY 1974 AND BEEN HIGH IN AUGUST 1974, THEY WOULD AGAIN GO UP.

(A) THE BRAZILIAN MINIMUM SUPPORT PRICE IS CR\$60. THE CR\$75 PRICE (INDICATED REFTTEL) REFERS

TO BRAZILIAN GOVERNMENT ANNOUNCED INTENTION TO SUPPORT 1 MILLION TONS, TO STRENGTHEN THE CONFIDENCE OF FARMERS, AT CR\$75 PER 60 KILO BAG FROM COOPS RPT COOPS. WHILE THE MECHANISM THROUGH THE BANCO DO BRASIL IS ENTIRELY IN PLACE FOR THE CR\$75 OPERATION, NO ONE RPT NO ONE HAS SOLD AS OF JULY 18. THE MECHANISM IS TO OPERATE RATHER LIKE THE C.C.C. LOANS. THE COOP WOULD RECEIVE CR\$75 FOR A 60 KILO BAG OF SOYBEANS THE COOP IN TURN DEDUCTS HANDLING CHARGES (ESTIMATED AT CONFIDENTIAL

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CR\$2 TO CR\$3), AND PAYS THE FARMER THE DIFFERENCE. THE LINE OF CREDIT IS INTEREST FREE TO THE COOP FOR UP TO 180 DAYS. IF THE FARMER WISHES TO WITHDRAW AND SELL HIS BEANS, HE PAYS 1.3 PERCENT PER MONTH ON THE AMOUNT OF HIS LOAN DURING THE PERIOD THE COOP HAS HELD HIS BEANS. IF AT THE END OF THE SIX MONTH PERIOD, THE FARMERS DECIDE NOT TO SELL, THE OWNERSHIP OF THE BEANS PASSES DEFINITELY TO THE BRAZILIAN FEDERAL GOVERNMENT.

(B) IT IS UNCERTAIN HOW THE MECHANICS OF THE PROPOSED BRAZILIAN SYSTEM WOULD PRECISELY WORK, BECAUSE THE MECHANISM IS ILL DEFINED. IT IS NOT CLEAR WHETHER THE SOYBEANS WOULD BE DELIVERED TO A GOVERNMENT WAREHOUSE OR RETAINED IN THE COOP WAREHOUSE. IN THE CASE OF COFFEE, THE PROCESS IS CLEARLY ESTABLISHED. THE FARMER BEARS THE COST AND RESPONSIBILITY OF DELIVERING HIS PRODUCT TO AN IBC (COFFEE INSTITUTE) WAREHOUSE AND IS PAID THE SUPPORT PRICE ON UNLOADING. IN THE RECENT CASE OF COTTON, THE GOVERNMENT IS BUYING BALES OF COTTON, SOMETIMES IN THE SELLER'S WAREHOUSE OR WAREHOUSES IN SAO PAULO STATE. SOURCE'S COMPANY HAD SOLD SOME COTTON TO THE GOVERNMENT IN ITS OWN WAREHOUSES, AND THE GOVERNMENT HAD ASSUMED THE COST OF TRANSFERRING THE COTTON TO THE CENTRAL WAREHOUSE LOCATION. THE PROBLEM WITH SOYBEANS IS THAT THEY ARE NOT AS EASILY STORED AS COTTON OR COFFEE. THE IBC WAREHOUSES ARE A POSSIBLE SOLUTION FOR THE STATE OF PARANA BUT THERE ARE NO SUCH WAREHOUSES IN THE STATE OF RIO GRANDE DO SUL, THE MAJOR SOYBEAN PRODUCER. THERE ARE SOME STATE WAREHOUSES IN RIO GRANDE DO SUL (CESA) BUT THE SPACE IN THESE WAREHOUSES COULD NOT BE BLOCKED OFF TO HOLD SOYBEANS INDEFINITELY. THE WHEAT CROP WILL BE COMING IN AND THE STORAGE SPACE WILL BE NEEDED, ALTHOUGH, OF COURSE, ADDITIONAL WAREHOUSING SPACE IS BEING BUILT. SOURCE REPEATED THAT THE GOVERNMENT'S CR\$75 SUPPORT SCHEME WAS PSYCHOLOGICAL RATHER THAN AN EFFECTIVE PROGRAM.

(C) IF THE LOCAL PRICE IN BRAZIL WERE TO GO BELOW CR\$75, SOURCE IN SAO PAULO THOUGHT, FARMERS BEHAVIOR WOULD DEPEND ON WHETHER THE PRICE STAYED

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BELOW THE LEVEL FOR MORE THAN THREE WEEKS. AT FIRST, FARMERS WOULD SIMPLY REFUSE TO SELL. THEN, HE THOUGHT, THE FARMER WOULD EVENTUALLY COME TO A PROCESSING COMPANY SUCH AS HIS OWN AND ASK THE COMPANY TO TAKE THE BEANS OFF HIS HANDS, PAYING HIM SAY CR\$20 A KILO BAG, AND ACCEPTING AN ARRANGEMENT THAT THE FARMER WOULD FIX THE PRICE WITHIN 90 DAYS. THE FARMER WOULD NOT ACTUALLY ENTER INTO AN AGREEMENT WITH THE GOVERNMENT, EVEN IF THE PRICE WENT DOWN TO CR\$60. THE CR\$60 PRICE WAS A PRICE WHICH THE GOVERNMENT WAS OBLIGATED TO PAY, BUT HISTORICALLY THE GOVERNMENT HAS YET TO BUY A SINGLE BAG AT THE SUPPORT PRICE LEVEL.

(D) SPECIFICALLY, ANSWERING A QUESTION AS TO WHAT THE GOVERNMENT WOULD DO SHOULD DOMESTIC (NOT RPT NOT EXPORT) PRICES FALL BELOW THE CR\$75 PRICE, SOURCE SAID GOB WOULD HAVE TO HONOR ITS COMMITMENT TO FINANCE UP TO ONE MILLION TONS, IF OFFERED, AND ULTIMATELY ASSUME OWNERSHIP. THE GOVERNMENT WOULD PROBABLY EVENTUALLY HAVE TO BUY MORE THAN ONE MILLION TONS. THE GOVERNMENT HAS A LEGAL OBLIGATION TO BUY ANY AND ALL SOYBEANS OFFERED TO IT AT THE CR\$60 MINIMUM SUPPORT PRICE, BUT PRESUMABLY THE PRICE WOULD NOT GO THAT LOW. (PARTICULARLY IN TERMS OF FUTURE EXCHANGE RATE).

(E) WITH RESPECT TO THE INCIDENCE OF ICM TAXES, THE SOURCE STATED THAT THIS STATE (TUOVER) TAX VARIES SLIGHTLY BETWEEN STATES, AS DO THE RULES CONCERNING ITS PAYMENT. BASICALLY, THE BUYER FROM THE FARMER ASSUMES THE RESPONSIBILITY. THE FARMER IS PAID THE QUOTED PRICE OF SAY CR\$80 FOR GYP KILO BAG. IN RIO GRANDE DO SUL, SOURCE'S COMPANY MAY BUY FROM AN INTERMEDIARIO OR IN US PARLANCE A GRAIN ELEVATOR OPERATOR, IN THIS CASE, THE PURCHASER PAYS THE INTERMEDIARIO SAY CR\$80 PER BAG PLUS THE ICM, CREDITS THE AMOUNT OF THE ICM PAID ON HIS OWN BOOKS AND DEBITS THE AMOUNT WHEN HE EXPORTS THE SOYBEANS. IN THE MAJOR SOYBEAN STATES, THE CRUSHER BUYS FROM THE FARMER AND CAN TRANSPORT THE BEANS AND PRODUCTS FREELY THROUGHTOUT THE STATE. HE PAYS THE ICM WHEN HE: A) EXPORTS THE BEANS OR THE

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PRODUCTS; B) MOVES THE BEANS OR PRODUCTS ACROSS THE STATE LINES, OR C) SELLS THE PRODUCTS WITHIN THE STATE.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, CAT-A, SOYBEANS, SUBSIDIES, TRADE CONTROLS, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JUL 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE179467
Document Source: ADS
Document Unique ID: 00
Drafter:
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: N750003-0056
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197507107/baaaaqqj.tel
Line Count: 326
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN NODS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: NODIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: NODIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by WorrelSW>; APPROVED <26 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: LOCK1
Status: NATIVE
Subject: n/a
TAGS: EAGR, EFIN, BR
To: RIO DE JANEIRO
SAO PAULO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006